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No. 84-830

In the Supreme Court

OF THE

United States

OCTOBER TERM, 1984

ETHICON, INC.,
Petitioner,
VS.
HANDGARDS, INC.,
Respondent.

BRIEF OF RESPONDENT HANDGARDS, INC., IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

MAXWELL M. BLECHER*
BLECHER, COLLINS & WEINSTEIN
611 West Sixth Street,
Suite 2800
Los Angeles, Calif. 90017
Telephone: (213) 622-4222
JOEL R. BENNETT
NANCY MILLER BENNETT
KENDRICK, NETTER & BENNETT
612 South Flower Street,
Suite 600
Los Angeles, Calif. 90017
Telephone: (213) 626-7792

Attorneys for Respondent Handgards, Inc.

* *Counsel of Record*

Of Counsel:

JAMES A. RAHL
357 East Chicago Avenue
Chicago, Illinois 60611

E. BARRETT PRETTYMAN, JR.
HOGAN & HARTSON
815 Connecticut Avenue
Washington, D.C. 20006

Bowne of Los Angeles, Inc., Law Printers. (213) 742-6600.

QUESTIONS PRESENTED

1. Whether the "sham exception" to the *Noerr-Pennington* doctrine applies where a jury has found by clear and convincing evidence (and both courts below agree) that petitioner deliberately brought a lawsuit to enforce a patent it knew to be invalid, coupled with one or more predatory or anticompetitive acts in furtherance of an attempt to monopolize the relevant market.

2. Whether the District Court and the Court of Appeals properly applied the substantial evidence test to the jury's findings where petitioner itself asserted such a test below, and each court independently reviewed the evidence even under the test now urged for the first time by petitioner.

3. Whether jurisdiction on appeal properly lay in the Ninth Circuit Court of Appeals where petitioner itself urged jurisdiction on that court and where the case arose entirely under the Clayton and Sherman Acts.

STATEMENT REQUIRED BY RULE 28.1

Respondent Handgards, Inc., has no parents, subsidiaries or affiliates.

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I

STATEMENT OF THE CASE

A. History of the Litigation

In 1962 Ethicon sued Handgards for infringement of the Gerard patent.[1] Applying a "beyond a reasonable doubt standard" the trial judge found the patent invalid based on

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[1]In 1964, Ethicon added a claim for infringement of the Orsini patent, but that claim was abandoned on the second day of the patent trial and Handgards was given a covenant not to sue.

Shabram's prior public use. The Court of Appeals for the Ninth Circuit affirmed, 432 F.2d 438 (9th Cir. 1970).[2] This Court denied certiorari, 402 U.S. 929 (1971).

The subsequent antitrust suit charged bad faith in the prosecution and appeal of the Gerard patent alleging that Ethicon knew the patent to be invalid and used it in the protection of its 90% market share, as part of a calculated effort to destroy or neutralize its only hair care glove competitor by frightening away its customers and disrupting its business and financial plans.

In 1976 Judge William O. Orrick presided over the first jury trial which resulted in a verdict for Handgards. Satisfied that the evidence permitted the jury to find that Ethicon knew the patent was invalid, Judge Orrick denied all post-trial motions. 1976-2 Trade Cas. ¶ 61,138 (N.D. Cal. 1976).

The Ninth Circuit reversed, 601 F.2d 986 (9th Cir. 1979), ordering a new trial in which it required that the bad faith necessary to overcome the presumption of good faith prosecution of a prior patent case must be established by "clear and convincing" evidence. The Ninth Circuit envisioned this presumption, plus the higher standard of proof, as creating a "proper barrier" to permit patentees to test the validity of their patents in court, and to "provide reasonable protection for the honest patentee." App. 54a. This Court

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[2]To support its claim of good faith prosecution, Ethicon emphasizes that the Ninth Circuit's opinion stated that the bifurcated issue of Shabram's prior public use "could have been decided either way." This statement provides no support for two reasons: (1) it merely means that applying a "beyond a reasonable doubt standard", the decision based on credibility of witnesses would not be clearly erroneous either way, and (2) it does not relate in any way to the unlitigated bases of invalidity known to Ethicon: priority of invention and "on sale."

denied Ethicon's petition for writ of certiorari. 444 U.S. 1025 (1980).

In 1982, Judge Stanley A. Weigel presided over the second jury trial in which he, in the language of the Ninth Circuit, "properly adhered to our decision in *Handgards I*." App. 32a. The second jury also found that Ethicon had prosecuted the Gerard patent infringement suit knowing that the patent was invalid and with the purpose of monopolizing the hair care plastic glove market. It assessed damages consisting of the attorneys' fees paid to defend the Gerard infringement suit and the profits lost because of Ethicon's unlawful use of the invalid patent in the marketplace. Judge Weigel, satisfied that these findings were supported by evidence meeting the clear and convincing standard, denied all post-trial motions. 552 F.Supp. 820 (N.D. Cal. 1982). App. 63a.

The Ninth Circuit, after meticulous review of the evidence, unanimously affirmed the judgment. 743 F.2d 1282 (9th Cir. 1984). Two of the Ninth Circuit judges (Judges Sneed and Kennedy) on the second appeal panel were also on the first appeal panel, and Judge Sneed wrote both opinions.

Accordingly, two experienced district judges and three appeals court judges were satisfied, after a review of the record as a whole, that Ethicon had prosecuted the Gerard patent in bad faith on the basis of "knowingly falsified" facts and with knowledge that the patent was invalid. App. 14a.

B. Operative Facts

This case rests on unique and compelling evidence. The undisputed evidence shows that the patentee, Gerard, told his patent lawyer, in a letter responding to questions relat-

ing to conception and reduction to practice, that his date of invention was May 24, 1957, 8 months *later* than the date given by Ethicon in interrogatory answers in the patent litigation, and 10 months after the date he swore to in an interference proceeding in the Patent Office. Gerard repeated the later date, with detailed explanation, in his deposition taken in a trade secret case, terminated before he sold his patent rights to petitioner. This crucial conflict between Gerard's earlier writing and sworn declarations, on the one hand, and petitioner's false interrogatory answers on the other, was — and is — devastating to Ethicon. Ethicon and its lawyers during pretrial discovery in the patent case learned that Shabram and not Gerard was the first inventor and that the patent was therefore invalid under 35 U.S.C. § 102(g).

To keep its lawsuit alive, Ethicon *fabricated* false answers to interrogatories claiming an invention date earlier than Shabram. The motive for maintaining the lawsuit was, in part, demonstrated by Gerard's letter circulated throughout the marketplace referring to the suit and stating that Ethicon intended to stop anyone from manufacturing plastic gloves. The Ninth Circuit characterized this letter as the "most damaging" evidence of Ethicon's specific intent to monopolize. App. 18a.

These same interrogatories in the patent case sought facts regarding Gerard's first sale of a glove made by his invention. Ethicon filed answers which are inconsistent with the facts told under oath by Gerard in the trade secret deposition and the invention dates claimed by Ethicon in the same set of interrogatory answers. Truthful answers would quickly have demonstrated the invalidity of the patent under 35 U.S. § 102(b).

Finally, "Handgards presented a former employee of Ethicon, Mr. Babb, who testified that Gerard, an employee of Ethicon, had told him that the Gerard patent was invalid ***" App. 12a-13a.

At trial, Gerard's attempt to reconcile the conflicting dates exposed him as hopelessly incredible and provided clear and convincing evidence of petitioner's bad faith. Ethicon's outside patent lawyers also failed at the trial to explain the conflicting dates in the interrogatory answers.

But, instead of recognizing the truth — that the Gerard patent was invalid — and withdrawing the suit, Ethicon pressed on through trial, appeal and petition for certiorari. And it did more. Knowing that his patent was invalid, Gerard wrote the aforementioned letter dated March 16, 1965 to a major purchaser of Handgards gloves who was then contemplating a joint venture with Handgards which would have assured Handgards of 50% of the home hair care glove market. The letter, copies of which were widely disseminated in the industry, threatened suit under the Gerard patent, causing the termination of Handgards' sales to that customer and killing the proposed joint venture. Moreover, it also prevented Handgards from raising outside capital necessary to remain technologically current. Finally, Ethicon repeatedly during the patent lawsuit tried to force Handgards into signing an anti-competitive, restrictive and confiscatory license agreement (App. 18a) which would necessarily have limited Handgards to less than 5% of the U.S. market and excluded it from foreign markets, thereby sealing its fate permanently as an impotent competitor.[3]

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[3]Using a single suit, even if filed with probable cause, to obtain through negotiation an ulterior or collateral objective is abuse of process at common law, Prosser & Keeton, Torts (5th Ed., 1984) 898, and thus a predatory act in the antitrust sense when done for

Ethicon's deliberate pattern of anti-competitive conduct caused Handgards serious "antitrust injury" in the form of lost sales and profits over the period 1964-1973.

II

REASONS FOR DENYING THE WRIT

A. Ethicon's Petition is an Attack on the Jury Verdict and is Without Merit

We emphasize that this case rests on a unique set of facts. Ethicon, in its petition, has seriously misstated many facts and circumstances. For example, it states that the jury which found against it was allowed to infer, speculate and second-guess as to bad faith from the mere relitigation of a prior claim and that the finding of bad faith in turn was allowed to support a virtual *per se* violation of the antitrust laws.[4] These statements have no resemblance whatever to what happened in this lawsuit.

In the course of detailed and careful instructions, the trial judge told the jury that in order for it to find against

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an anticompetitive purpose. *Grip-Pak, Inc.* v. *Illinois Tool Works, Inc.*, 694 F.2d 466 (7th Cir., 1982), *cert. denied*, 103 S.Ct. 2430 (1983).

[4]Ethicon states, for example, that under the opinion below, " 'bad faith' can be established simply by relitigating the merits of a prior action" (Pet. at 7), "••• bad faith may be inferred merely from the evidence in the prior suit, and ••• this bad faith finding results in a virtual *per se* violation of section 2 of the Sherman Act •••" (*id.*), "••• a single suit may be determined to be a sham merely by relitigating the merits to establish whether the plaintiff thought he would lose" (*id.* at 10), "••• a subsequent antitrust jury" was allowed "to infer from that same contrary evidence or legal authority that the litigant 'knew' he would lose" (*id.*), "••• 'bad faith' thus boils down to a trial lawyer's judgment that one patent, and not the other, was Ethicon's best chance to win the lawsuit" (*id.* at 11),

Ethicon, Handgards had to prove "by clear and convincing evidence" that the Gerard patent was prosecuted "in bad faith". Trial Transcript (T.T.) 2951. Under the "bad faith theory", the jury was instructed that the issue was whether Ethicon knew that the Gerard patent was invalid, as Handgards contended, or whether the litigation was "prosecuted in good faith with the belief that the Gerard patent was valid and enforceable, as [Ethicon] contends. *** [M]oreover, you must decide whether the suits, if brought or maintained in bad faith, were brought for the purpose of eliminating Handgards as a competitor in the relevant market". T.T. 2977. If Ethicon had "a specific intent to monopolize", Handgards still had to establish "by a preponderance of the evidence that [Ethicon] engaged in one or more predatory or anti-competitive acts in furtherance of that intent" and that "there was a dangerous probability that [Ethicon] would succeed in monopolization". T.T. 2997.

There is a "legal presumption", the jury was told, "that Ethicon brought the [Gerard] patent infringement suit in good faith", and this presumption could be overcome only by "clear and convincing evidence", T.T. 2977-2978, which was specifically defined. T.T. 2978. The jury had to determine whether Ethicon "brought or prosecuted the suit with knowledge that the patent it sued upon was invalid"—whether its agents, officers and directors "were in possession of facts which prevented them from holding a good-

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the jury engaged in "second-guessing" the litigants (*id.*), the jury was allowed to make "inferences based solely on hypothetical patent defenses" (*id.* at 12), and the significance of the opinion below is that "no business can ever sue a competitor, at least on a patent, without the threat that a subsequent antitrust jury will impose treble damage liability wherever there is *any* evidence from which a jury could subsequently speculate as to bad faith" (*id.*; emphasis in original).

faith belief that the Gerard patent was valid and infringed". T.T. 2979.

The jury was specifically told that "Ethicon was entitled to rely upon the advice of its outside counsel", provided that all material facts were disclosed to him and that "the advice was sought in good faith and acted upon honestly". T.T. 2980. Handgards had to establish by clear and convincing evidence that Ethicon knew of "a prior public use or a prior invention which would have invalidated the patent" or knew that the product made by Gerard's process "was on sale *** more than a year prior to the filing" of the application. T.T. 2981. The fact that the patent had been adjudged invalid was "not sufficient to show that the infringement suit was brought in bad faith" — Ethicon had to have initiated or pursued the suit "knowing the patent was invalid". T.T. 2981. The bringing or maintaining of "one or more illfounded patent infringement actions in bad faith" constituted an antitrust violation only if the litigation involved "an intent to monopolize a particular market or industry", and bad faith was *again* defined as "knowing either at the time the lawsuit is filed or during its pendency that the particular patent sued upon is invalid". T.T. 2982.

Even if the jury found that the delivery or the taking of an order in May 1957 constituted a public use or sale, it *still* had to consider whether Ethicon held "a good faith belief that there was no public use or on sale more than one year prior to the date of the filing of the Gerard application". For example, if Ethicon had "a good faith belief" that the transactions "were experimental", or "a good faith belief" that the law was "different than the law as I have stated it", and thus "a good faith belief" that there was no such public use or sale, Handgards had not proven its case. T.T. 2985.

Handgards, in fact, had to prove the Shabram prior public use "beyond a reasonable doubt", and "Ethicon was entitled to prosecute suit on the Gerard patent *if it could in good faith entertain a reasonable doubt* as to whether or not Handgards could prove an alleged prior public use before June 2, 1957, *"beyond a reasonable doubt"*. T.T. 2986, emphasis added. Once again the jury was told that bad faith meant *knowing* that the patent sued upon was invalid, and further that "[t]he prosecution of a patent infringement suit in good faith, though the patent was held invalid, does not, standing alone, violate the antitrust laws". T.T. 2988. The jury was even told: "[t]he mere fact, if it is established, that Ethicon's answers [to interrogatories] were false will not support a finding of bad faith"; instead, for this issue even to have relevance, Handgards had to show that Ethicon "intentionally gave false interrogatory answers in an attempt to deceive" Handgards or was "guilty of gross negligence or recklessness in misrepresenting the truth". T.T. 2991.

Thus, this jury was not permitted, under the instructions, to make the improper inferences suggested by Ethicon, to speculate about anything or to second-guess anyone. The burden upon Handgards was a heavy one to prove, based upon specific facts supported by evidence, that Ethicon knew precisely what it was doing when it pressed a totally baseless lawsuit. And even this was not enough. Its bad faith had to be part of a specific intent to monopolize accompanied by one or more predatory or anticompetitive acts.

B. The Prosecution of a Single Lawsuit in Bad Faith Falls Within the Sham Exception

The Ninth Circuit decisions in this litigation have not had, and do not threaten to have, a chilling effect upon patentees' prosecution in good faith of their legitimate

patent rights. Arguing that a single bad faith infringement suit should be completely immune from antitrust scrutiny, Ethicon ignores the Ninth Circuit's direct determination that bad faith patent litigation "contribute[s] nothing to the furtherance of the policies of either the patent law or the antitrust law." App. 48a.

The Ninth Circuit fashioned a scholarly and analytical compromise between these conflicting policies. In doing so, it erected barriers, consisting of the requirement that proof of bad faith be established by clear and convincing evidence (intentional falsehood or a knowingly frivolous claim) and that plaintiff be required to overcome a presumption of good faith. These formidable obstacles serve to protect the honest patentee who genuinely seeks the vindication of his private interest in pursuit of his patent. And the mere fact that an honest patentee loses will not, standing alone, create antitrust liability. But at the same time, the Ninth Circuit rule permits, in those rare and exceptional cases such as this, a remedy for the victim of patent litigation which should not have been pursued.

The Ninth Circuit decisions in this litigation have carefully followed the requirements of this Court's *Noerr-Pennington* doctrine with its "sham" exception.

Moreover, there is no conflict or confusion in the lower courts concerning *Noerr-Pennington* or the sham exception. Petitioner repeatedly states that there is doubt whether a single suit, even though it is conceded to be in bad faith, would lose *Noerr-Pennington* immunity. Yet there is no decision which allows immunity to a single suit brought in bad faith such as this one, and the rationale of this Court's decision in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), fully supports the loss of *Noerr-Pennington* immunity.

C. The Ninth Circuit Applied the Appropriate Standard of Review

Ethicon's argument based on *Bose v. Consumers Union of U.S., Inc.*, 104 S.Ct. 1949 (1984), is without merit.

In presenting this case on appeal to the Ninth Circuit, Ethicon told that court that the standard of review was "substantial evidence to support the jury's verdict" and the Ninth Circuit adopted Ethicon's proposed standard. App. 9a.

Moreover, the Ninth Circuit did independently review the record on the key issue of Ethicon's bad faith in order to assure itself that the bad faith had been shown by "clear and convincing evidence." App. 17a and 32a.

D. The Ninth Circuit Found All of the Necessary Elements of a Section 2 Attempt to Monopolize Claim

The Claim that the Ninth Circuit found a per se violation of Section 2 is utterly false. Bad faith litigation intended to destroy competition is predatory conduct and when coupled with the other elements of the offense constitutes an antitrust violation. Those other elements were required by the Court of Appeals to be proven. (App. 48a), and the court carefully reviewed the evidence to insure that they were proven.

E. Jurisdiction Properly Lay in the Ninth Circuit Court of Appeals

The Ninth Circuit has jurisdiction to decide this appeal, as Ethicon itself asserted to the Court of Appeals in *Handgards II*. App. 5a. Moreover, the plain fact is that this case did not arise under 28 U.S.C. § 1338(a) as required for jurisdiction of the Court of Appeals for the Federal Circuit, and did not litigate the issue of patent validity. Accordingly, the CAFC has no jurisdiction over this appeal.

The mere fact that questions of patent law arose in the course of the controversy does not convert the case "to one arising under" the patent laws. *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473 (1912). See also *Atari, Inc. v. JSA & Co. Group, Inc.*, Appeal No. 84-742 (CAFC), appeal denied Nov. 8, 1984, (CAFC, 1984).

III

THE DECISIONS IN HANDGARDS I AND II APPLY THIS COURT'S RULINGS ON THE "SHAM EXCEPTION" TO NOERR-PENNINGTON AND THERE IS NO CONFUSION OR CONFLICT AMONG THE CIRCUITS

This Court's decision in *Bill Johnson's Restaurants v. N.L.R.B.*, 103 S.Ct. 2161 (1983), has clearly delineated the scope of the "sham exception" in the context of litigation brought in bad faith. The Court stated:

> Although it is not unlawful under the Act to prosecute a meritorious action, the same is not true of suits based on insubstantial claims — suits that lack, to use the term coined by the Board, a "reasonable basis." Such suits are not within the scope of First Amendment protection:
>
> The first amendment interests involved in private litigation — compensation for violated rights and interests, the psychological benefits of vindication, public airing of disputed facts — are not advanced when the litigation is based on intentional falsehoods or on knowingly frivolous claims. Furthermore, since sham litigation by definition does not involve a bona fide grievance, it does not come within the first amendment right to petition.
>
> Just as false statements are not immunized by the First Amendment right to freedom of speech, see

> *Herbert v. Lando*, 441 U.S. 153, 171, 99 S.Ct. 1635, 1646, 60 L.Ed.2d 115 (1979); *Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 340, 94 S.Ct. 2997, 3007, 41 L.Ed.2d 789 (1974), baseless litigation is not immunized by the First Amendment right to petition.
>
> * * *
>
> Considerations analogous to these led us in the antitrust context to adopt the "mere sham" exception in *California Motor Transport, supra.* [103 S.Ct. at 2170-71.]

Ethicon admits that the "sham exception" is properly invoked "where the challenged lawsuit is coupled with other anticompetitive conduct designed to interfere directly and unlawfully with the business of a competitor." Pet. p. 8. That is exactly the case here.

In *Handgards II*, the court found "substantial evidence" supporting Handgards' contention that:

> *** Ethicon took steps to eliminate competition from the relevant market. The most damaging evidence introduced was a letter written by Gerard, an Ethicon employee, to Sam Porter, a major distributor and potential joint venturer of hair care gloves. This letter asserted the validity of Ethicon's Gerard patent and the company's intent to enforce the patent. After the letter was received, Porter stopped purchasing gloves from Handgard and refused to negotiate any joint venture with Handgards. Ethicon also sent a similar letter to several other purchasers of hair care gloves. *This evidence along with the prosecution of a bad faith patent suit provides a sufficient basis for a jury's finding of specific intent to monopolize.* Ethicon's argument that its repeated license offers negated this intent was presented to and rejected by the jury. The mere existence of license offers does not require that we

> ignore the strong evidence presented by Handgards which supports the jury's finding. [App. 18a; emphasis added; footnote omitted].

There is no basis, as Ethicon seems to assert, for holding that a single bad faith predatory infringement suit, when coupled with all the other elements of a Sherman Act Section 2 violation, would not constitute "sham" litigation. This Court settled the question insofar as infringement suits are concerned in *Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*, 382 U.S. 172, (1965). There a patentee brought a single infringement suit to enforce a patent obtained by fraud. Defendant filed an antitrust counterclaim for this conduct, and this Court sustained the legal validity of such a claim if supported by proof of the other elements of a violation. The case "stands for the proposition that pressing claims known to be without foundation for the purpose of stifling competition is a violation of Section 2 of the Sherman Act." Bork, *The Antitrust Paradox* 353 (1978).[5]

And, the point is made even more emphatically in *Bill Johnson's Restaurants, supra*, 103 S.Ct. at p. 2171, where the Court refers to "*a* baseless lawsuit" in the context of bad faith litigation. (Emphasis added).

Moreover, a close reading of this Court's decision in *Vendo Co. v. Lektro-Vend Corp.*, 433 U.S. 623 (1977), supports the applicability of the sham exception to a single lawsuit. In a footnote, the plurality opinion implied that the filing of a single lawsuit might provide a sufficient basis for invoking the sham exception (*id.* at 635-636 n.6) and the dissent expressly adopted that position. *Id.* at 661-662

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[5]Precedent for a treble damage remedy against enforcement of an illegally obtained patent goes back to the English Statute of Monopolies of 1623, 21 Jac. I, c. 3, section IV.

(Stevens, J., dissenting). Lower courts are in agreement on the single "sham" suit question.[6]

If the plaintiff's motives are in doubt where the question of a "sham" is whether defendants were deliberately trying to bar access to an administrative agency, a multiplicity of suits may be more persuasive, as in *California Motor Transport Co. v. Trucking Unlimited*, 404 U.S. 508 (1972). But where bad faith is shown by extrinsic evidence, coupled with the other elements of Section 2 violation as here, it would defeat both antitrust policy and justice to say that the malefactor should receive a pass until it becomes a recidivist and does it again to some other victim. The first victim would thus be left remediless. Where only one competitor exists — as is the case here — a single lawsuit would accomplish the monopolistic goals.

The decisions of the Circuits are uniform that baseless litigation brought for an anticompetitive purpose falls within the "sham exception" doctrine. The Second Circuit, in *Landmarks Holding Corp. v. W. Bermant*, 664 F.2d 891, 896-897 (2d Cir. 1981), held that the "sham exception" applies when the litigation is brought "solely to harass and hinder a competitor." *Accord: Litton Systems, Inc. v. American Telephone & Telegraph Co.*, 700 F.2d 785 (2d Cir. 1983), *cert. denied*, 104 S.Ct. 984 (1984).

The Fifth Circuit, in *Associated Radio Service Co. v. Page Airways, Inc.*, 624 F.2d 1342, 1358 (5th Cir. 1980),

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[6]*See, e.g., Omni Resource Development Corp.* v. *Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984); *MCI Communications Corp.* v. *American Telephone & Telegraph Co.*, 708 F.2d 1081, 1155 (7th Cir.), *cert. denied*, 104 S. Ct. 234 (1983); *Feminist Women's Health Center* v. *Mohammad*, 586 F.2d 530, 543 n.6 (5th Cir. 1978), *cert. denied*, 444 U.S. 924 (1979); *First National Bank of Omaha* v. *Marquette National Bank*, 482 F. Supp. 514, 519-521 (D. Minn. 1979), *aff'd*, 636 F.2d 195 (8th Cir. 1980), *cert. denied*, 450 U.S. 1042 (1981).

cert. denied, 450 U.S. 1030 (1981), held that a complaint comes within the "sham exception" when it alleges that the suit was brought "not for a proper purpose, but for the purpose of achieving an unlawful objective."

The Seventh Circuit is in accord. Judge Posner, writing for that Circuit in *Grip-Pak, Inc. v. Illinois Tool Works, Inc.*, 694 F.2d 466 (7th Cir. 1982), *cert. denied*, 103 S.Ct. 2430 (1983), held that even litigation brought with probable cause but with the "purpose *** not to win a favorable judgment against a competitor but to harass him and to deter others, by the process itself — regardless of outcome" would violate the antitrust laws. *Accord*: *MCI Communications Corp. v. American Telephone & Telegraph Co.*, 708 F.2d 1081 (7th Cir. 1983), *cert. denied*, 104 S.Ct. 234 (1983).

A line of Ninth Circuit decisions, including *Handgards I*, is in accord with that proposition: *Forro Precision Inc. v. IBM*, 673 F.2d 1045, 1060-61 (9th Cir. 1982), *cert. denied*, 103 S.Ct. 1234 (1983). *Clipper Exxpress v. Rocky Mountain Motor Tariff Bureau, Inc.*, 690 F.2d 1240, 1254 (9th Cir. 1982), *cert. denied*, 459 U.S. 1227 (1983); *Energy Conservation, Inc. v. Heliodyne, Inc.*, 698 F.2d 386 (9th Cir. 1983); *Aydin Corp. v. Loral Corp.*, 718 F.2d 897 (9th Cir. 1983); and *Omni Resources Development Corp. v. Conoco, Inc.*, 739 F.2d 1412 (9th Cir. 1984).

Only the Tenth Circuit decision in *Hydro-Tech Corp. v. Sundstrand Corp.*, 673 F.2d 1171, 1175 (10th Cir. 1982), appears to require something more than the sham litigation itself. In that case, the court stated: "A sham action is one which tends to be abusive of judicial process and, therefore, is something more than an action instituted without probable cause." *Id.* at 1177. But, even if that were the controlling principle of law we would, as demonstrated earlier, satisfy a more stringent test. This would then be an inappropriate case in which to review that issue. Moreover, because *Hydro-Tech* was decided a year before this

Court's decision in *Bill Johnsons' Restaurants*, it is apparent that to the extent it deviates from the otherwise uniform decisions of the circuits it is of dubious validity. Finally, the passage quoted above is dictum because the court found that nowhere in its complaint had the plaintiff alleged that the first suit had been a "sham" *Id.* at 1175. The court further noted that the business dealings between the two defendants "tend themselves to negate the proposition" that the prior suit was a sham. *Id.* The court was careful to note that if the plaintiff had alleged that the first suit had been "vexatious" or "spurious," the result might have been different. *Id.* at 1177.

There is, therefore, no confusion among the lower courts nor is there any significant disparity of opinion with respect to the scope of the "sham exception."

The commentators are also in accord. Judge Bork in "The Antitrust Paradox," after discussing *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp., supra*, stated:

> Antitrust sanctions can hardly be applied to one who litigates his patent in good faith, even though the patent is ultimately held to be invalid. That would chill legitimate patent litigation.
>
> The antitrust significance of the fraud, therefore, is simply that it showed Food Machinery to be litigating in bad faith. *Walker* is thus not a mere patent decision but an antitrust precedent of general applicability. It stands for the proposition that pressing claims known to be without foundation for the purpose of stifling competition is a violation of Section 2 of the Sherman Act.
>
> Certainly, in a proper case, a proved intent not to bar competitors from the courtroom but, by the litigation of baseless claims, to bar them from a market or to delay their entry should suffice for violation of the

> Sherman Act. The *Walker* decision holds as much, and there is no indication that *Trucking Unlimited* represents a retreat from *Walker*. On the contrary, the concurring Justices seemed to feel that the *Trucking Unlimited* majority was opening up broad new areas of liability. [Bork, Robert H., *The Antitrust Paradox* (1978), pp. 352-353, 354.]

Professors Areeda and Turner are in accord.

> In light of the serious potential damage inflicted by reckless infringement suits or threats thereof, particularly against the alleged infringer's customers, we think an attempt claim based on that conduct alone is warranted for its deterrent effect. [P. Areeda & D. Turner, *III Antitrust Law*, § 836, p. 355 (1978).]

See also Balmer, Sham Litigation and The antitrust Laws, 29 Buffalo L. Rev. 39 (1980), and Fischel, Antitrust Liability For Attempts To Influence Government Action: The Basis and Limits of the Noerr-Pennington Doctrine, 45 U.Chi. L. Rev. 80, 108 (1977).

IV

ETHICON'S ALTERNATIVE ARGUMENT THAT IT WAS DENIED AN INDEPENDENT EVALUATION OF THE EVIDENCE IS WITHOUT MERIT

A. Ethicon Did Not Request, and Has Waived, a De Novo Review Standard Applied to the Bad Faith Finding

As noted earlier, Ethicon in *Handgards II* urged on the Ninth Circuit a "substantial evidence" standard of review even with respect to bad faith fact-finding. And Ethicon adopted the same standard of review in *Handgards I*.

At no time in any of its post-trial motions in either *Handgards I* or *Handgards II* did Ethicon characterize the de-

termination of bad faith as a "constitutional fact" requiring *de novo* review. That suggestion emerges for the first time in its Petition to this Court. Although the request, for the reason set forth below, is without merit, it comes too late to be considered. *Michel v. Louisiana*, 350 U.S. 91, 99 (1955).[7]

B. Ethicon Itself Proposed the Substantial Evidence Test to That Court

Under the caption "Standard of Review", Ethicon's Opening Brief in the Ninth Circuit recited in part:

> Points I and II[8] present questions of law which this Court may review *de novo*. *Transport Indemnity Co.* v. *Liberty Mutual Insurance Co.*, 620 F.2d 1368 (9th Cir. 1980). *They also raise the question whether there is substantial evidence to support the jury's verdict. California Computer Products* v. *IBM*, 613 F.2d 727, 732-34 (9th Cir. 1979). [Appellant's Brief, p. 10; emphasis added.]

Having failed to urge a *de novo* standard of review for "constitutional facts" and having affirmatively urged a "substantial evidence" test, Ethicon is now precluded from urging error on the ground that the court below applied the wrong standard of review. This Court has repeatedly and

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[7]It is ironic that Ethicon, which rejected Handgards' offer to waive the jury on the retrial, now suggests that it was entitled to *de novo* review by the same judge to whom it refused to submit the case initially.

[8]Point I in the Brief was captioned, "There was no Clear and Convincing Evidence that Ethicon Prosecuted the Patent Suit in Bad Faith", and Point II was captioned "There was No Substantial Evidence That Ethicon Violated the Antitrust laws."

consistently held that it will not consider an issue which is raised for the first time in the Petition for Certiorari.[9]

C. In Any Event, The Courts Below Independently Reviewed the Evidence

Assuming, *arguendo*, that the lower courts had a duty to independently examine the evidence in order to satisfy the constitutional standard reiterated by this Court in *Bose* v. *Consumer's Union*, 104 S.Ct. 1949 (1984), it is plain that they discharged that responsibility.

Even if some independent review was required to "cross the constitutional threshold" (*id.* at 1965), the intensity of that review varies in the circumstances of the case. *Id.* at 1959. There is a "presumption of correctness that attaches to factual findings [which] is stronger in some cases than in others" (*id.*). Here, numerous factors support that "presumption of correctness" for the findings of the lower court:

1. Handgards had to overcome a presumption of good faith by clear and convincing evidence;

2. The critical evidence of the intentional falsehoods was largely documentary;

3. The litigation was extraordinarily lengthy and complex involving facts dating back 27 years. In this context, the courts below each expressed "independent" satisfaction that the result was consistent with the evidence as a whole.

District Judge Stanley A. Weigel in denying Ethicon's post-trial motions concluded: "The record in this case reasonably supports the jury's verdict. Consequently, defend-

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[9]*E.g., J. I. Case Co.* v. *Borak*, 377 U.S. 426, 428-429 (1964); *State of California* v. *Taylor*, 353 U.S. 553, 556-557 n.2 (1957); *Neely* v. *Martin K. Eby Construction Co.*, 386 U.S. 317, 330 (1967); *United States* v. *Ortiz*, 422 U.S. 891, 898 (1975); *Delta Air Lines, Inc.* v. *August*, 450 U.S. 346, 362 (1981); *Hoover* v. *Ronwin*, 104 S.Ct. 1989, 1998 n. 25 (1984).

ant is entitled to neither judgment notwithstanding the verdict nor a new trial." 552 F.Supp. at 821.

The Ninth Circuit also conducted an independent review of the factual record below, stating "we shall evaluate the evidence" on each of Handgards' theories of bad faith. After repeated references to the evidence in the record, the Court concluded:

> *Conclusion As To The Clear And Convincing Evidence of Bad Faith*
>
> Our examination of the record convinces us that the district court properly instructed the jury in accordance with our opinion in *Handgards I*. The jury was instructed that a patent is presumptively valid and that presumption can only be rebutted with clear and convincing evidence. *See* 601 F.2d at 996. *Substantial evidence exists to support a finding by the jury that Handgards established such a rebuttal and that Ethicon prosecuted its patent suit in bad faith.* [App. 17a; emphasis added.] . . .

And "Here, Ethicon brought a bad faith infringement suit." App. 23a. Just as in *Miree* v. *DeKalb County, Georgia*, 433 U.S. 25, 34 (1977), the *Bose* argument is an "afterthought".

V

THE DECISION BELOW CREATES NO NEW PER SE MONOPOLIZATION DOCTRINE AND IS IN HARMONY WITH THIS COURT'S MONOPOLY DECISIONS

The Ninth Circuit did not create any *per se* antitrust doctrine under Section 2 of the Sherman Act for the prosecution of a bad faith patent suit. It was careful to point out in *Handgards I* that "an antitrust plaintiff pursuing a bad faith patent prosecution theory must still prove the other requisites of a Section 2 offense." *Handgards, Inc.* v.

Ethicon, Inc., 601 F.2d at 993 n.13. *See also Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, *supra*. Far from creating a new *per se* category of monopolization claim under Section 2, the Ninth Circuit imposed a high barrier, holding that a patentee's infringement suit is presumptively in good faith and that this presumption can be overcome only by clear and convincing evidence.

Contrary to Ethicon's arguments, Handgards proved the existence of a separate and distinct relevant market constituting hair care gloves. Ethicon was shown to have possessed a 90% share of that market. The Ninth Circuit found that substantial evidence existed to support the jury's finding on this relevant market and market share (App. 19a-20a) as well as on dangerous probability of success. *Id.*

Moreover, the Ninth Circuit found evidence of specific intent to monopolize, characterizing the threatening Gerard letter as the "most damaging evidence" to support this element. App. 17a-18a. And it also found evidence sufficient to support a finding of anticompetitive effect causing "antitrust injury." App. 24a. Thus, the court reviewed the record and found the jury's finding *on each element* of an attempt to monopolize claim to be supported by substantial evidence. The court concluded:

> Our review of the record leads us to conclude that the district court properly adhered to our decision in *Handgards I*. Ethicon's arguments on appeal primarily are an attack on the verdict of the jury. * * * [T]he verdict is supported by substantial evidence. * * * Thus, we affirm the entirety of the antitrust verdict against Ethicon. *** [App. 32a].

It is gross hyperbole to assert that the Ninth Circuit adopted a "per se" rule of attempted monopolization under Section 2. The decision by two judges of the *Handgards II*

panel only three days later in *Omni Resource Development Corp.* v. *Conoco, Inc.*, 739 F.2d 1412 (9th Cir. 1984), affirmed summary judgment for the defendant in an antitrust case alleging bad faith use of litigation. That case cogently demonstrates that the Ninth Circuit has not adopted an expansive or new interpretation of Section 2 of the Sherman Act.[10]

And, the Ninth Circuit's holding that actual exclusion from the market is not necessary in an attempt to monopolize case is consistent with this Court's prior holdings. *Lorain Journal Company* v. *United States*, 342 U.S. 143 (1951).

Finally, Petitioner's argument that the instant case should be either combined for review with, or held for disposition in light of the Court's eventual decisions in, *Blanton* v. *Mobil Oil Corp.*, 721 F.2d 1207 (9th Cir. 1983), *petition for cert. filed*, 52 U.S.L.W. 3875 (U.S. May 18, 1984) (No. 83-1896), and *Pacific Stationery & Printing Co.* v. *Northwest Wholesale Stationery*, 715 F.2d 1393 (9th Cir. 1983), *cert. granted*, 53 U.S.L.W. 3235 (U.S. Oct. 1, 1984) (No. 83-1368), Pet. at 26-27, is utterly without merit. In the instant case, in contrast to Blanton, the Ninth Circuit found an attempt to monopolize based on the showing of a specific intent to monopolize and a dangerous probability of success

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[10]The Orsini patent, which Ethicon voluntarily *withdrew* from the original patent infringement suit because its lawyers recognized it to be the weaker of the two patents, is legally irrelevant because Ethicon gave Handgards a covenant not to sue when it made the decision to withdraw it. Hence, Ethicon was powerless to enforce Orsini. Moreover, as the Ninth Circuit noted:

> • • • Ethicon argues that the injury caused by the Orsini patent is not antitrust injury. We agree. However, this does not help Ethicon. There is no showing that Handgards' lost profits are attributable to the Orsini patent. Ethicon did not attempt to prove that the Orsini patent caused any of the damages. [App. 23a.]

in the relevant market, the elements this Court requires to be proven before finding an attempt to monopolize. *See, e.g., Lorain Journal* v. *United States, supra; American Tobacco Co. v. United States*, 328 U.S. 781 (1946); *Swift & Co.* v. *United States*, 196 U.S. 375 (1905). And *Pacific Stationery & Printing Co.* involved an application of the *per se* rule to an alleged group boycott by a trade association and did not involve an attempt to monopolize claim as in the instant case.

VI

ETHICON ITSELF URGED JURISDICTION UPON THE NINTH CIRCUIT, AND IN ANY EVENT JURISDICTION PROPERLY LAY WITH THAT COURT

Ethicon now questions the Ninth Circuit's jurisdiction, but buries in a footnote the fact that "both parties suggested that that court had jurisdiction." Pet. at 28 n. 13. In point of fact, Ethicon did not merely make a suggestion; it affirmatively urged at every stage that jurisdiction properly lay with the Ninth Circuit:

(a) In its opening brief, Ethicon told the Ninth Circuit that it, and not the Court of Appeals for the Federal Circuit (CAFC), had jurisdiction to decide this appeal. (See App. 5a).

(b) Ethicon specifically and successfully sought — over the objection of Handgards — to have the second appeal heard by the original panel of judges who decided *Handgards I.*

(c) During the course of oral argument, Judge Sneed raised the issue of jurisdiction and specifically asked the parties to file supplemental briefs on that issue. Ethicon in its supplemental brief continued to assert that the Ninth Circuit was the correct court to decide this appeal.

It was only after it lost on appeal that Ethicon suddenly, and for the first time, claimed a lack of jurisdiction. Ethicon should not be allowed to raise this point for the first time before this Court. Having fought and lost, Ethicon now wants a second bite of the apple. But, there must be some end to this litigation. This case is now 16 years old. These parties have already been through three trials, one patent infringement trial, two antitrust trials, and five appellate procedures to reach this state. The decision of the Ninth Circuit Court of Appeals should therefore be entitled to great deference under the doctrine that "courts generally *** refuse to reopen what already has been decided. ***" *Messenger* v. *Anderson*, 225 U.S. 436, 444 (1912).

The consistent position of the parties asserting that the Ninth Circuit, and not the CAFC, has jurisdiction of the appeal derives from the universal recognition that absolutely no issue of patent validity or invalidity was raised or decided in the second trial and second appeal. Because the proceedings of the District Court from which the appeal was taken did not arise under 28 U.S.C. § 1338(a), the CAFC had no jurisdiction over the appeal. The stipulated pretrial orders in this case governing both the first and second trial uniformly recited that the federal court's jurisdiction was premised entirely on Section 4 of the Clayton Act and one or more sections of the Sherman Act.

It is self-evident that the antitrust laws and not the patent laws constitute the predicate of this action and that the CAFC's jurisdiction extends only to those cases "arising under" the patent laws. The mere fact that the underlying litigation was a baseless patent infringement suit forming part of an attempt to monopolize does not turn the case into one "arising under the patent laws." Both the Senate and House reports establishing the CAFC preclude it from deciding cases if the "gravamen is antitrust." *E.g.*, S. Rep.

No. 275, 97th Cong., 1st Sess. 19, 20 (1981), reprinted in U.S. Code Cong. & Ad. News No. 2 (Apr. 1982). And the fact that questions of patent law arise in the course of a controversy does not convert the case "to one arising under" the patent laws: *New Marshall Engine Co.* v. *Marshall Engine Co.*, 223 U.S. 473 (1912); *American Well Works Co.* v. *Layne & Bowler Co.*, 241 U.S. 257 (1916); *Koratron Co.* v. *Deering Milliken, Inc.*, 418 F.2d 1314, 1316-18 (9th Cir. 1969), *cert. denied*, 398 U.S. 909 (1970).

The Court of Appeals for the Federal Circuit recognizes this rule. In *Atari, Inc.* v. *JS&A Group, Inc.*, *supra*, that court held:

> Achievement of increased uniformity in the substantive law of patents does not require that this court get its hands on every appeal involving an allegation that a patent law issue is somehow involved * * * [A] mere allegation that patent law is involved will not give this court jurisdiction when that of the district court did not rest at least in part on a continuing claim arising under the patent *** laws.

CONCLUSION

For the reasons set forth herein, the Petition for Certiorari should be denied.

Dated: December 28, 1984

Respectfully submitted,

MAXWELL M. BLECHER*
BLECHER, COLLINS & WEINSTEIN

JOEL R. BENNETT
NANCY MILLER BENNETT
KENDRICK, NETTER & BENNETT

Attorneys for Respondent Handgards, Inc.

* *Counsel of Record*

Of Counsel:

JAMES A. RAHL
E. BARRETT PRETTYMAN, JR.
HOGAN & HARTSON